

STATE OF SOUTH CAROLINA

Application of

Duke Energy Carolinas, LLC
for Approval of Energy Efficiency Plan Including
an Energy Efficiency Rider and Portfolio of Energy
Efficiency Programs.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET
NUMBER: 2007-358-E

(Please type or print)

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DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously

☒ Other:

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)			
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request	
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certificatio	
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input checked="" type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation	
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement	
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment	
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter	
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response	
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery	
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition	
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation	
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena	
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff	
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input checked="" type="checkbox"/> Other: Testimony of Dwight L. Jacobs	
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest		
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit		
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report		

BEFORE
THE PUBLIC SERVICE COMMISSION OF
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For Approval of Energy Efficiency Plan
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**TESTIMONY OF
DWIGHT L. JACOBS FOR
DUKE ENERGY CAROLINAS**

This document is an exact duplicate, with the exception of the form of the signature, of the e-filed copy submitted to the Commission in accordance with its electronic filing instructions.

1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Dwight L. Jacobs and my business address is 526 South Church
4 Street, Charlotte, North Carolina.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by the Duke Energy Shared Services, Inc. as Vice President,
7 Franchised Electric & Gas Accounting. I am an officer of Duke Energy
8 Carolinas, LLC ("Duke Energy Carolinas" or the "Company").

9 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
10 **QUALIFICATIONS.**

11 A. I graduated from the University of North Carolina at Chapel Hill with a Bachelor
12 of Science in Business Administration. I am a certified public accountant. I am a
13 member of the American Institute of Certified Public Accountants ("CPAs") and
14 the North Carolina Association of CPAs.

15 **Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.**

16 A. I practiced accounting for 14 years with Arthur Andersen, LLP, where I was
17 promoted to Audit Manager in 1992 and promoted to Audit Partner in 2000. I
18 joined Duke Energy in 2002 as Managing Director of Corporate Accounting and
19 Reporting. I became Vice President and Controller of Duke Power (now known
20 as Duke Energy Carolinas) in 2004. I was promoted to Vice President and
21 Controller of Duke Energy's U.S. Franchised Electric & Gas ("Franchised
22 Electric & Gas") Business Unit in January, 2006. Currently, I am Vice President,
23 Franchised Electric & Gas Accounting. I am also the Business Unit's accounting

1 representative with Edison Electric Institute, a trade association of electric utility
2 companies.

3 **Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AS VICE PRESIDENT,**
4 **FRANCHISED ELECTRIC & GAS ACCOUNTING.**

5 A. As Vice President, Franchised Electric & Gas Accounting, I have overall
6 responsibility for the accounting functions of the Company's Franchised Electric
7 & Gas Business Unit, which comprises Duke Energy's regulated utility
8 businesses in North Carolina, South Carolina, Indiana, Ohio, and Kentucky. I am
9 responsible for the books of account, accounting records, and financial statements
10 for these regulated utility businesses.

11 **Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES AND**
12 **BOOKS OF ACCOUNT OF DUKE ENERGY CAROLINAS?**

13 A. Yes. The books of account of Duke Energy Carolinas follow the Uniform System
14 of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC").

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. The purpose of my testimony is to (1) support the Company's proposed deferral
17 of energy efficiency¹ program costs and amortization of such costs over the life of
18 the applicable program, with an acknowledgment that the revenues established in
19 the proposed energy efficiency rider ("Rider EE (SC)" or the "Rider") based on
20 avoided costs specifically include the recovery of incurred program costs; and (2)
21 explain the Company's proposal to treat the earnings stream produced under the

¹ The term "energy efficiency," as used in this testimony, includes both energy efficiency/conservation and demand response measures.

1 “save-a-watt” Energy Efficiency Plan similarly to that which would have been
2 produced by a generating plant investment, for reporting purposes.

3 **II. ACCOUNTING POLICIES AND PROCEDURES RELATING TO**
4 **ENERGY EFFICIENCY PROGRAM COSTS**
5

6 **Q. HOW DOES DUKE ENERGY CAROLINAS PROPOSE TO ACCOUNT**
7 **FOR ENERGY EFFICIENCY PROGRAM COSTS?**

8 A. As discussed by Company Witness Rogers, under the proposed save-a-watt
9 approach to energy efficiency and demand response programs (collectively
10 referred to herein as “energy efficiency”), Duke Energy Carolinas will be
11 compensated for all costs associated with the Energy Efficiency Plan, including
12 all program costs, education, awareness and administration costs, measurement
13 and verification costs, research and development costs, and an appropriate return
14 on investment. This compensation is achieved through the amortization of and a
15 return on 90% of the costs avoided by the Company as a result of reductions in
16 capacity and energy costs resulting from its energy efficiency programs. To
17 implement this approach, Duke Energy Carolinas requests the Commission grant
18 authority for the Company to defer certain program costs and to amortize them
19 over the life of the applicable program, with an acknowledgment that the revenues
20 established in the Company’s proposed Rider EE (SC), which are based on
21 avoided costs, specifically include the recovery of certain incurred program costs.

22 **Q. WHAT PROGRAM COSTS DOES THE COMPANY SEEK TO DEFER?**

23 A. The Company seeks to defer costs it will incur in one period but which relate to
24 benefits received in multiple future periods. Such costs include the upfront
25 development costs incurred prior to the implementation of the programs, such as

1 for program design, development of training materials, development of
2 communication and advertising materials. They also include one time incentives
3 paid upfront for the installation of energy efficiency measures or equipment such
4 as heat pumps. Ongoing costs incurred after a program is implemented, such as
5 program administration costs and credits to customers who participate in demand
6 response programs will be expensed as incurred. Such costs are incurred
7 routinely and amounts paid in any year relate to the benefits derived from those
8 programs in the same year.

9 **Q. HOW HAS THE COMPANY ACCOUNTED FOR EXPENSES FOR PAST**
10 **ENERGY EFFICIENCY PROGRAMS?**

11 A. In the Company's most recent general rate case proceeding (Docket No.
12 91-216-E), the Commission approved a deferred account process with carrying
13 cost coverage and subsequent cost of service amortization for demand side
14 management ("DSM") cost recovery. Specifically, the Commission approved a
15 Stipulation between the Company, the S.C. Department of Consumer Affairs, and
16 the Commission Staff allowing for the deferral of certain DSM expenses above
17 the 1990 test year level included in rates and the addition to the deferred balance
18 of carrying costs on the balance as calculated monthly. The recovery of the
19 balance in the deferred account was to be addressed in a subsequent general rate
20 case proceeding. The Commission reaffirmed its approval of this cost recovery
21 mechanism in Order No. 93-8, Docket No. 92-208-E, dated January 25, 1993
22 ("Order No. 93-8"). The Commission also approved in rates a level of

1 amortization of the DSM deferred costs in Order No. 96-337, dated May 10,
2 1996.

3 **Q. WHY SHOULD THE COMPANY'S PROPOSED NEW ACCOUNTING**
4 **TREATMENT BE APPROVED?**

5 A. The Company requests Commission approval of the recovery mechanism
6 proposed as part of its Energy Efficiency Plan in lieu of the deferred account cost
7 recovery mechanism approved by the Commission for past DSM programs
8 implemented by the Company. Deferral and amortization of energy efficiency
9 program costs, many of which are incurred at the inception of a program, matches
10 the expenses to the associated capacity and energy savings benefits produced over
11 the life of the program. This treatment is consistent with the theme of our
12 proposed energy efficiency initiative in that it treats investment in this program
13 similarly to an investment in plant, which is capitalized on the Company's
14 balance sheet and subsequently depreciated through its income statement over a
15 period equal to its estimated life. In order to defer these program costs for
16 financial reporting under the rules and regulations of the Securities Exchange
17 Commission ("SEC"), Duke Energy Carolinas must be able to demonstrate that
18 the revenues established in proposed Rider EE (SC) specifically include the
19 recovery of incurred program costs and therefore requests such an
20 acknowledgment from the Commission.

21 **Q. IS THE ACCOUNTING TREATMENT PROPOSED BY THE COMPANY**
22 **IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING**
23 **PRINCIPLES ("GAAP")?**

1 A. Yes. Regulatory assets can be established based on the actions of regulators as
2 described in Financial Accounting Standard Board No. 71, "Accounting for the
3 Effects of Certain Types of Regulation." Specifically, paragraph 9 of that
4 standard allows an incurred cost, like the program cost under the Company's
5 Energy Efficiency Plan, to be recorded as a regulatory asset if both of the
6 following criteria are met:

7 1. It is probable that future revenue in an amount at least equal to the
8 capitalized cost will result from inclusion of that cost in allowable
9 costs for rate making purposes.

10 2. Based on available evidence, the future revenue will be provided to
11 permit recovery of the previously incurred cost rather than to provide
12 for expected levels of similar future costs.

13 The Federal Energy Regulatory Commission has included similar rules in its
14 Uniform System of Accounts.

15 **III. REPORTING OF ENERGY EFFICIENCY REVENUES IN**
16 **QUARTERLY REPORTS**
17

18 **Q. HOW SHOULD DUKE ENERGY CAROLINAS' ENERGY EFFICIENCY**
19 **PROGRAM REVENUES BE TREATED FOR REGULATORY**
20 **REPORTING PURPOSES?**

21 A. Energy efficiency revenues should be based upon the investment choice between
22 utility generation and conservation. This proposed regulatory treatment for
23 quarterly reporting assists in accomplishing that goal by ensuring that the earnings
24 stream produced under the Company's Energy Efficiency Plan is treated similarly

1 to that which would have been produced by the avoided plant investment for
2 reporting purposes.

3 **Q. HOW DOES THE COMPANY PROPOSE TO ACCOUNT FOR THE**
4 **IMPACTS OF THE SAVE-A-WATT APPROACH IN ITS QUARTERLY**
5 **REPORTS?**

6 A. Duke Energy Carolinas requests Commission approval to account for the impacts
7 of the proposed regulatory treatment in its Quarterly Reports as follows: the
8 Company will include (a) revenues earned through Rider EE (SC) and (b)
9 expenses calculated as the greater of 90% of the avoided generation costs as
10 calculated in Rider EE (SC), or actual program costs incurred. Actual program
11 costs for the reporting period will be included for information purposes as a
12 footnote in the Reports.

13 Rider EE (SC) revenues will be included on page 1 in Electric Operating
14 Revenues. Page 6 will include this information by customer class (residential,
15 commercial or industrial). Electric Operating Expenses on page 1 will include the
16 greater of the 90% of the avoided generation costs as calculated in Rider EE (SC)
17 or the actual program costs incurred as reflected in the Company's books of
18 account. If actual program costs are included, the revenue credits for demand
19 response programs will be reflected as a reduction of Operating Revenues. A
20 footnote will be included on Page 1 indicating which amount has been included in
21 Operating Expenses. The footnote will also include the amount for actual
22 program costs as reflected in the Company's books of account.

1 Rate Base on pages 4, 4a, and 4b will include the avoided cost investment
2 that the Rider EE (SC) revenues are being based upon. A footnote will be
3 included on page 4 indicating the amount of avoided costs that have been
4 included in Rate Base.

5 **Q. WILL THE REVENUES PROVIDED BY THE COMPANY'S ENERGY**
6 **EFFICIENCY PROGRAMS BE ADEQUATE TO COVER THE**
7 **PROGRAM COSTS?**

8 A. Yes, the Company projects that the revenues it collects over a period of time will
9 be adequate to cover all program costs, including development and on-going
10 costs.

11 **Q. WHAT IS THE COMPANY SEEKING APPROVAL OF RELATED TO**
12 **DEFERRAL OF COSTS?**

13 A. Duke Energy Carolinas is seeking approval of (1) the Company's request for
14 deferral of certain program costs and amortization of such costs over the life of
15 the applicable program, with an acknowledgment that the revenues established in
16 the Rider based on avoided costs specifically include the recovery of incurred
17 program costs; and (2) the Company's proposed manner of accounting for the
18 impacts of the Energy Efficiency Plan in future Quarterly Reports.

19 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

20 A. Yes.

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Programs)

CERTIFICATE OF SERVICE

This is to certify that I, Leslie L. Allen, a legal assistant with the law firm of Robinson, McFadden & Moore, P.C., have this day caused to be served upon the person(s) named below the **Testimony of Dwight Jacobs** in the foregoing matter by placing a copy of same in the United States Mail, postage prepaid, in an envelope addressed as follows:

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Dated at Columbia, South Carolina this 10th day of December, 2007.

A handwritten signature in cursive script, reading "Leslie Allen", written in black ink.

Leslie L. Allen